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1999 AUG 10 P 4: 29

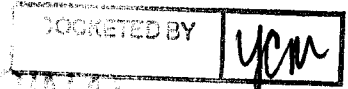
Arizona Corporation Commission

DOCKETED

August 10, 1999 AZ CORP COMMISSION
DOCUMENT CONTROL

AUG 10 1999

Mr. Jerry Rudibaugh
Chief Hearing Officer
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007



ORIGINAL

RE: DOCKET NOS. E-01345A-98-0473, E-01345A-97-0773 AND RE-00000C-94-0165

Dear Mr. Rudibaugh:

On July 22, 1999, you ordered the parties to provide an Informational Standard Offer Bill based on the two examples contained in Attachment AP-1R in the format set forth in the Hearing Division Exhibit No. 1.

On August 3, 1999, APS filed a draft exhibit that provided an Informational Standard Offer Bill in the format outlined in Hearing Officer Exhibit 1.

On August 6, 1999, Staff provided APS with the following comments on the APS proposed Informational Standard Offer Bill in response to APS' August 3, 1999 letter and draft exhibit enclosure:

1. Staff does not interpret the Hearing Officer's comments on allocation as requiring acceptance of decremental Metering, Meter Reading and Billing charges. We believe that these charges should be based on embedded costs. It is misleading to customers to portray the decremental costs of these services as the costs these customers are currently paying for standard offer service.
2. To be useful to customers, the calculated Generation Credit should calculate and list separately the amount of regulatory assessment and sales tax that would be associated with the credit that results from this residual calculation. The MGC has always been discussed prior to assessments and this is most likely how marketers will make offers.
3. There is no agreed upon basis for segregating the generation credit into demand and energy portions, unless it were based on the Company's underlying rates. Since the residential class does not have a demand rate and the computations do not seem to be based on rates, the generation credit should be expressed either as a sum of the rate components that create it or as a single number.

Mr. Jerry Rudibaugh

August 10, 1999

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4. The generation credit should not be described as typical, since it is unique to the particular customer.
5. The total amount of the shopping credit is exaggerated in this example because it is derived from the current bundled rate rather than the Standard Offer rate that will be in effect after the Settlement.

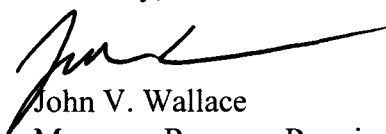
Since APS did not address the above modifications in its filing on August 9, 1999, Staff cannot support the APS Proposal and has attached its Proposed Informational Standard Offer Bill.

Staff, in attempting to respond to the Hearing Officer's Request to unbundle APS' Standard Offer rate, encountered some difficulties. Because the market generation credit is not a fixed amount per kwh, we felt it was necessary to express it in its component parts. This will enable customers to know not only what the previous month's credit was but how the per kwh credit might change as the customer usage changes. The Company's unbundled informational bill does not inform customers that the per kwh credit that they receive will change with the usage level and pattern.

This effort revealed a lack of comparability between the Standard Offer rate and the Direct Access rate. Noteworthy is the fact that residential customers' monthly customer charges will increase as they go to Direct Access; in other words, they get an additional cost rather than a savings as they go to Direct Access. They must compare this cost to the savings that they receive on the energy rate. A similar problem was found in Rate 32, as the total demand charge paid by customers on the Direct Access rate is higher than the demand charge on the Standard Offer rate. This will mean that low load factor customers receive a much lower per kwh market generation credit than higher load factor customers.

These are not necessary results of creating a CTC. With the residential rate, the Company could collect the same total CTC and the same total revenue through decreasing the MGCs on an energy basis and leaving the customer charge constant. For rate 32, the per KW CTC could be decreased and the same revenue collected through a small energy CTC. Staff has calculated alternative Direct Access rates and are attaching them also for informational purposes.

Sincerely,



John V. Wallace
Manager, Revenue Requirements Analysis
Utilities Division

JVW:mmm
Attachments

Staff Alternative to Direct Access Rate

ARIZONA PUBLIC SERVICE COMPANY

Informational Unbundling for Standard Offer
Proposed Standard Offer Bill

Typical Summer Bill on Rate E-32 at Settlement Rate Levels

Settlement Rate (after 1.5% reduction)
Standard Offer Bill Calculation

Your total kWh usage is:	36,500
Your total KW usage is:	100
Basic Service Charge	\$12.50
Charge for kWh used	\$3,124.06
Charge for KW used	\$172.90
Regulatory Assessment	\$4.64
Sales Tax	\$217.23
TOTAL	\$3,531.33

Tax Rate

6.55% |

Pre Settlement Reductio \$3,584.30
Company's Calculation \$3,585.12
per Attachment AP-1R, page 2 of 2

This total bill is less than Company's because
it reflects 1.5% rate reduction; without this,
shopping credit would be overstated

Informational Unbundling

Your total usage for this month was: 36500 kWh
Your total KW usage for this month is: 100 KW

Your Standard Offer Bill was (see page 1): \$3,531.33

Unbundled Standard Offer bill:

Metering:	\$7.62
Meter Reading:	\$1.69
Billing:	\$1.33
Basic Delivery Service:	\$1.86
Distribution Service kWh:	\$1,221.35
Distribution Service kW:	\$72.10
Systems Benefits:	\$41.98
Competition Transition Charge:	\$252.30
Regulatory Assessment:	\$2.22
Sales Tax	\$104.89
Transmission and Ancillary:	148.4
Market Generation Credits:	\$156.40
Customer Charge Credit	\$0.00
Block 1 Credit	\$667.52
Block 2 Credit	\$894.42
Block 3 Credit	\$0.00
Demand Credit *	\$0.00
Total Market Generation Credits Incl. trans.&ancil.:	\$1,718.34

Regulatory Assessment on Gen. \$2.42
Sales Tax on Gen. \$112.63

Total Bill \$3,540.72

The result of the above charges is an average transmission
and generation shopping credit for this month of:

0.0471
cents/kwh

We believe the difference in revenues is caused by the exemption of some
KWs from billing on the Standard Offer rate. This should be corrected in compliance.

Development of Alternative to
APS Direct Access Rate for General Service

ADJUST CTC TO ELIMINATE NEGATIVE MGC DEMAND

Reduce CTC Demand Charge by	(\$1,411)
KW Billing determinants	16,486,693
Resulting Revenue reduction	(\$23,262,724)
Bills with demand charges	245,434
Cost per bill of losing 5 KW exemption	(\$9,100)
Revenue reduction	(\$2,233,449)
Total lost revenues from above	(\$25,496,173)
kwh Billing determinants	6,187,457,114
Balancing CTC energy charge	\$0.00412

Staff alternative Direct Access Charges
UNBUNDLED STANDARD OFFER CHARGES FOR RATE 32

Rate Component	Bundled Standard Offer (1)	Unbundled Standard Offer					Market Generation (6,7) Credits
		Ancillary Serv.& Distribution (2)	Transmission (3)	SBC (4)	CTC (5)		
YEAR 1: Summer 1999 Customer Charge	\$12.50	\$12.50				\$0.00	
Energy Charges:							
Block 1	\$0.10852	\$0.04255	\$0.00507	\$0.00115	\$0.00412	\$0.05563	
Block 2	\$0.07436	\$0.02901	\$0.00357	\$0.00115	\$0.00412	\$0.03651	
Block 3	\$0.04684	\$0.01811	\$0.00236	\$0.00115	\$0.00412	\$0.02110	
Demand	\$1.82	\$0.721	\$0.08		\$1.019	\$0.00	

Staff Alternative to Direct Access Rate

ARIZONA PUBLIC SERVICE COMPANY

**Informational Unbundling for Standard Offer
Proposed Standard Offer Bill**

Typical Summer Bill on Rate E-12 at Settlement Rate Levels

Standard Offer Bill Calculation

Your total kWh usage is: 991

Basic Service Charge \$7.50
 Charge for kWh used \$100.19
 Regulatory Assessment \$0.20
 Sales Tax \$7.08
TOTAL \$114.97

Tax Rate 6.56%

Company's Calculation \$116.67
 per Attachment AP-1R, page 1 of 2

This total bill is less than Company's because
 it reflects 1.5% rate reduction; without this,
 shopping credit would be overstated

Informational Unbundling

Your total usage for this month was: 991 kWh

Your Standard Offer Bill was (see page 1): \$114.97

Unbundled Standard Offer Service bill:

Distribution portion of bill

Metering: \$4.00
 Meter Reading: \$1.69
 Billing: \$1.33
 Basic Delivery Service: \$2.98
 Distribution Service: \$41.21
 Systems Benefits: \$1.14
 Competition Transition Charge: \$11.73
 Regulatory Assessment: \$0.12
 Sales Tax \$4.20

Transmission & Ancillary \$5.09
 Market Generation Credits:
 Customer Charge Credit * (\$2.50)
 Block 1 Credit \$7.72
 Block 2 Credit \$20.18
 Block 3 Credit \$13.13
Total Market Generation Credits incl. trans.& ancil. \$43.62

Regulatory Assessment on Gen.: \$0.08
 Sales Tax on Gen. \$2.86

Total Bill \$114.88

The result of the above charges is an average transmission
 and generation shopping credit for this month of: 4.4013 ct/kWh

This should match the bundled total exactly; we believe there is a
 rounding problem

Development of Alternative to
APS Residential Direct Access Rate

ADJUST CTC TO ELIMINATE NEGATIVE MGC CUSTOMER CHARGE

Decrease in customer charge (\$2.50)

Total number of bills 7341687

Lost revenue (\$18,354,218)

KW Billing determinants 7,237,499,232

Per kwh CTC increase \$0.00254

Staff Alternative Direct Access Charges
UNBUNDLED STANDARD OFFER CHARGES FOR RESIDENTIAL RATE

Rate Component	Bundled Standard Offer (1)	Unbundled Standard Offer					Market Generation Credits (5)	(6, 7)
		Distribution (2)	Transmission (3)	SBC (4)	CTC			
YEAR 1: Summer 1999 Customer Charge	\$7.50	\$7.50						\$0.00
Energy Charges: Block 1	\$0.07901	\$0.04158	\$0.00514	\$0.00115		\$0.01184		\$0.01931
	\$0.11014	\$0.04158	\$0.00514	\$0.00115		\$0.01184		\$0.05044
	\$0.12844	\$0.04158	\$0.00514	\$0.00115		\$0.01184		\$0.06874

ACC Staff Unbundling

ARIZONA PUBLIC SERVICE COMPANY

Informational Unbundling for Standard Offer
Proposed Standard Offer Bill

Typical Summer Bill on Rate E-12 at Settlement Rate Levels

Standard Offer Bill Calculation

Your total kWh usage is: 991

Basic Service Charge \$7.50
Charge for kWh used \$100.19
Regulatory Assessment \$0.20
Sales Tax \$7.08
TOTAL \$114.97

Tax Rate

6.56%

Company's Calculation \$116.67
per Attachment AP-1R, page 1 of 2

This total bill is less than Company's because it reflects 1.5% rate reduction; without this, shopping credit would be overstated

Informational Unbundling

Your total usage for this month was: 991 kWh

Your Standard Offer Bill was (see page 1): \$114.97

Unbundled Standard Offer Service bill:

Distribution portion of bill

Metering: \$4.00
Meter Reading: \$1.69
Billing: \$1.33
Basic Delivery Service: \$2.98
Distribution Service: \$41.21
Systems Benefits: \$1.14
Competition Transition Charge: \$9.22
Regulatory Assessment: \$0.12
Sales Tax \$4.04

Transmission & Ancillary \$5.09
Market Generation Credits:
Customer Charge Credit * (\$2.50)
Block 1 Credit \$8.74
Block 2 Credit \$21.19
Block 3 Credit \$13.61
\$46.13

Total Market Generation Credits incl. trans.& ancil.

Regulatory Assessment on Gen.: \$0.08
Sales Tax on Gen. \$3.03

Total Bill \$114.88

The result of the above charges is an average transmission and generation shopping credit for this month of:

4.6549 ct/kWh

* The Direct Access customer charge is higher than the customer charge on the Standard Offer rate.

This should match the bundled total exactly; we believe there is a rounding problem

UNBUNDLED STANDARD OFFER CHARGES FOR RESIDENTIAL RATE

Rate Component	Bundled Standard Offer (1)	Unbundled Standard Offer					Market Generation Credits (6, 7)
		Distribution (2)	Transmission (3)	SBC (4)	CIC (5)		
YEAR 1: Summer 1999 Customer Charge	\$7.50	\$10.00					(\$2.50)
Energy Charges: Block 1	\$0.07901 \$0.11014 \$0.12844	\$0.04158 \$0.04158 \$0.04158	\$0.00514 \$0.00514 \$0.00514	\$0.00115 \$0.00115 \$0.00115	\$0.00930 \$0.00930 \$0.00930		\$0.02184 \$0.05297 \$0.07127
YEAR 1: Winter 1999 Customer Charge	\$7.50	\$10.00					(\$2.50)
Energy Charges: Block 1	\$0.07912	\$0.03518	\$0.00514	\$0.00115	\$0.00930		\$0.02835
Average Market Generation Credit for Residential Rate in Summer 1999:							\$0.05500
Average Market Generation Credit for Residential Rate in 1999:							\$0.03000
Weighted Average Residential Market Generation Credit for 1999:							\$0.04490

Notes:

- (1) Bundled Rates after Settlement Reduction
- (2) Distribution Rate Charges equal the Direct Access Distribution Rate Charges
- (3) Transmission Rate Source: Filing
- (4) Systems Benefit Charge equals the Direct Access Systems Benefit Charge
- (5) Competitive Transition Charge equals the Direct Access Competitive Transition Charge
- (6) Market Generation Credit equals Bundled Standard Offer Charge less: (the Retail Access: Distribution charge plus Transmission Charge plus Systems Benefit Charge plus Competitive Transition Charge).
- (7) Positive Market Generation Charges indicate bill reductions for shopping. Negative Market Generation Credits indicate bill increases for shopping.

ACC Staff Unbundling

ARIZONA PUBLIC SERVICE COMPANY

Informational Unbundling for Standard Offer
Proposed Standard Offer Bill

Typical Summer Bill on Rate E-32 at Settlement Rate Levels

Settlement Rate (after 1.5% reduction)

Standard Offer Bill Calculation

Your total kWh usage is: 36,500
Your total KW usage is: 100

Basic Service Charge \$12.50
Charge for kWh used \$3,124.06
Charge for KW used \$172.90
Regulatory Assessment \$4.64
Sales Tax \$217.23

TOTAL

\$3,531.33

Tax Rate

6.55% |

Pre Settlement Reduction \$3,584.30
Company's Calculation \$3,585.12
per Attachment AP-1R, page 2 of 2

This total bill is less than Company's because it reflects 1.5% rate reduction; without this adjustment, shopping credit would be overstated

Informational Unbundling

Your total usage for this month was: 36500 kWh
Your total KW usage for this month is: 100 KW

Your Standard Offer Bill was (see page 1): \$3,531.33

Unbundled Standard Offer bill:

Metering:	\$7.62
Meter Reading:	\$1.69
Billing:	\$1.33
Basic Delivery Service:	\$1.86
Distribution Service kWh:	\$1,221.35
Distribution Service kW:	\$72.10
Systems Benefits:	\$41.98
Competition Transition Charge:	\$243.00
Regulatory Assessment:	\$2.22
Sales Tax	\$104.28
Transmission and Ancillary:	\$156.40
Market Generation Credits:	\$0.00
Customer Charge Credit	\$716.97
Block 1 Credit	\$995.37
Block 2 Credit	\$0.00
Block 3 Credit	(\$150.20)
Demand Credit *	\$1,718.54

Total Market Generation Credits Incl. trans. & ancil.:

Regulatory Assessment on Gen. \$2.42
Sales Tax on Gen. \$112.65

Total Bill

\$3,531.03

The result of the above charges is an average transmission and generation shopping credit for this month of:

0.0471
cents/kwh

* Because the entire stranded cost is collected through the demand charge on the Direct Access Rate, customers will pay a higher demand charge on the Direct Access rate than on the bundled rate, so it costs them more to choose an alternative generation supplier. This cost must be balanced against the reduction in energy charges.

UNBUNDLED STANDARD OFFER CHARGES FOR RATE 32

Rate Component	Bundled Standard Offer (1)	Unbundled Standard Offer					Market Generation Credits (6,7)
		Distribution (2)	Ancillary Serv.& Transmission (3)	SBC (4)	CIC (5)		
YEAR 1: Summer 1999							
Customer Charge	\$12.50	\$12.50					\$0.00
Energy Charges:							
Block 1	\$0.10852	\$0.04255	\$0.00507	\$0.00115			\$0.05975
Block 2	\$0.07436	\$0.02901	\$0.00357	\$0.00115			\$0.04063
Block 3	\$0.04684	\$0.01811	\$0.00236	\$0.00115			\$0.02522
Demand	\$1.82	\$0.72	\$0.08		\$2.43		(\$1.41)
Value of 5 free KWs	\$9.10						
YEAR 1: Winter 1999							
Customer Charge	\$12.50	\$12.50					\$0.00
Energy Charges:							
Block 1	\$0.09925	\$0.04255	\$0.00423	\$0.00115			\$0.05132
Block 2	\$0.06780	\$0.02901	\$0.00287	\$0.00115			\$0.03477
Block 3	\$0.04252	\$0.01811	\$0.00178	\$0.00115			\$0.02148
Demand	\$1.64	\$0.65	\$0.07		\$2.43		(\$1.51)
Average Market Generation Credit for Rate 32 in Summer 1999:							
							\$0.04250
Average Market Generation Credit for Rate 32 in 1999:							
							\$0.03900
Weighted Average Market Generation Credit for 1999:							
							\$0.04072

Notes:

- (1) Bundled Rates after Settlement Reduction
- (2) Distribution Rate Charges equal the Direct Access Distribution Rate Charges
- (3) Transmission Rate Source: Filing
- (4) Systems Benefit Charge equals the Direct Access Systems Benefit Charge
- (5) Competitive Transition Charge equals the Direct Access Competitive Transition Charge
- (6) Market Generation Credit equals Bundled Standard Offer Charge less: (the Retail Access: Distribution charge plus Transmission Charge plus Systems Benefit Charge plus Competitive Transition Charge).
- (7) Positive Market Generation Charges indicate bill reductions for shopping. Negative Market Generation Credits indicate bill increases for shopping.